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TAGS: [ECON](#) [ENRG](#) [PGOV](#) [PREL](#) [MD](#)
SUBJECT: MOLDOVAN ENERGY WOES

REF: A. CHISINAU 1334
[1](#)B. CHISINAU 1165
[1](#)C. CHISINAU 994

Classified By: Ambassador Michael D. Kirby for reasons 1.4(b) and (d).

[1](#)1. (C) SUMMARY: The Moldovan energy sector continues to suffer from political manipulations, which in a society accustomed to government subsidies prevents charging full cost-recovery tariffs for increasingly more expensive natural gas, electricity, and heating. According to recent media reports, Moldova will pay about USD 190 per thousand cubic meters (tcm) for natural gas in 2008. As winter takes hold, temperatures in Chisinau's centralized heating system continue to drop as debts and political rhetoric continue to mount. Compounding the situation, Ukraine briefly cut exports of electricity to Moldova, hinting at Ukraine's unwillingness to continue subsidizing low-cost electricity exports and reminding Moldova of its energy insecurity. END SUMMARY.

GAS PRICES SET TO INCREASE IN 2008

[1](#)2. (C) On December 20, MoldovaGaz announced that Gazprom would increase the price for natural gas supplied to Moldova from USD 170/tcm to USD 192/tcm for the first quarter of [1](#)2008. In July, Gazprom had initially indicated that the price for natural gas for 2008 would be USD 180/tcm. On December 25, Prime Minister Tarlev confirmed the USD 192/tcm price, noting that it could increase according to the formula the GOM accepted when it signed a long-term contract for gas deliveries. According to local media reports, Gazprom recently held negotiations with Transnistria (TN), discussing a debt-for-shares swap to cover the region's estimated USD 1.5 billion debt and setting the price for natural gas for 2008 at USD 192/tcm. (NOTE: MoldovaGaz is owned by Gazprom (50%), the GOM (35.33%) TN (13.44%) and individual investors (1.22%). END NOTE.) The signing of separate contracts for right- and left-bank Moldova, dividing debts, and a debt-for-share swap have been in discussion for over a year (Ref A).

HEATING IN CHISINAU: FROM WARM TO COOL

[1](#)3. (C) On December 26, Termocom was forced to lower the temperature in the centralized heating system in Chisinau from 74 degrees Celsius to 14-16 degrees. The measure was taken to prevent the accumulation of further debts following the Chisinau municipal government's lowering of the heating tariff (Ref B). On December 19, MoldovaGaz reduced the volume of gas deliveries to Termocom by 20 percent. On December 20, MoldovaGaz President Ghenadie Abashkin told us

he had cut supplies of natural gas not only to Termocom, but also to the three state-owned power plants (CET-1, CET-2 and CET-Nord) because of mounting debts. He said MoldovaGaz had accumulated USD 30 million in debts this heating season with Gazprom because his customers had not paid their bills in full. Abashkin said he had recently received a notice from Gazprom demanding payment and threatening to reduce the volume of natural gas supplied to Moldova.

UKRAINE SENDS A SIGNAL

14. (C) On December 20, Ukraine briefly suspended the transmission of electricity to Moldova, which caused a blackout for more than 260,000 rural consumers in central and southern Moldova. Carlos Gonzales, President of Union Fenosa, the owner of three power distribution companies, said the blackout lasted less than 10 minutes. Moldova depends on Ukraine for electricity, producing less than 30% of its requirements domestically in aging and inefficient power plants. Gonzalez said the Ukrainians claimed the interruption was a technical problem, but he thought it was clearly a shot across the bow intended to encourage the Moldovans to accept a higher price for Ukrainian electricity.

In July, Moldova signed an agreement with Ukraine on electricity imports, increasing the price from 2.7 cents per kilowatt hour (kwh) to 3.0 cents per kwh and gradually increasing the price 0.1 cent per kwh per month through June 2009 (Ref C).

ALTERNATIVE ENERGY: TRANSNISTRIAN ELECTRICITY?

15. (C) Faced with the prospect of sharp increases in the price of Ukrainian electricity, the GOM has quietly developed a relationship with the Russian-owned Cuciurgan power plant (Moldavskaya GRES) in Transnistria. The plant has agreements with Moldelectrica, the right-bank transmission company responsible for Moldova's international electrical connections, to export electricity to Russia and Romania. Gonzalez speculated that the GOM might sign a new agreement with the Cuciurgan power plant to purchase electricity for right-bank Moldova. (NOTE: Moldova stopped purchasing electricity from the plant in 2005 following a unilateral price increase by the Transnistrians. END NOTE.) Gonzalez noted that Union Fenosa had recently won an arbitration case in Paris against the Cuciurgan power plant for breach of contract stemming from the 2005 price increase.

AFTER THE OSCE CHAIRMANSHIP - NO LOVE FOR THE SPANISH

16. (C) When asked about current relations with the GOM, Gonzalez said the relationship remains frosty and he believes the GOM would rather see Union Fenosa divest. He said the company continued to call for full-cost recovery tariffs to finance infrastructure investments, but his demands fell on deaf ears at the Ministry of Industry and the Prime Minister's office. He said the Spanish Foreign Ministry had coordinated a meeting between President Voronin and a high-level Union Fenosa executive from Madrid, but Voronin canceled it with no explanation. Gonzalez said that according to Spanish government information provided to Union Fenosa, the GOM intends to sell key energy sector assets to the Russians. He added that Moldova's energy sector and Union Fenosa had been on the agenda during Voronin's recent trip to Brussels, but he had seen no change in the GOM's attitude following the discussions.

COMMENT

17. (C) Moldova's energy sector is in disarray. The Termocom case is an example of what happens when artificially low tariffs are adopted. Both Termocom and its suppliers, Union Fenosa and MoldovaGaz, are steadily accumulating debts, which will only get worse in January when the price for natural gas increases. We also expect an increase in the price of

Ukrainian electricity. We've noted before our concern about the GOM's attitude towards Union Fenosa, a major foreign investor. A Western company that operates for profit cannot work without charging prices that allow for full cost recovery. Given the GOM's indifference toward the company and international pressure, it seems that the government has decided to force the company to divest, clearing the way for future Russian investments.

KIRBY